

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS

Airport Capital Funds

The Airport Capital Funds finance the Airport's capital expenditures and consist of the Airport Capital Improvement Fund, the Airport Renewal and Replacement Fund, the Airport Passenger Facility Charge Fund, and the Airport Revenue Bond Improvement Fund.

Airport Capital Funds

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 215,131	\$ 61,146	\$ (153,985)	(71.6%)
<i>Expenditure</i>	416,479	148,391	268,088	64.4%
<i>Fund Balance (est.)</i>	351,761 *	372,155	20,394	5.8%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance of \$154.0 million was due mostly to the lower than budgeted use of bond financing for projects budgeted in the Airport Revenue Bond Improvement Fund. The Airport had budgeted \$122.7 million to fund the security-related projects, however no bonds needed to be issued this fiscal year. The Airport also had budgeted \$16.3 million in Bond Proceeds for the FMC Site Reuse Preparation project but only \$2 million was issued this fiscal year.

Transfers tracked just slightly below budgeted levels. The actual transfer to the Airport Renewal and Replacement Fund was \$249,000 less than budgeted. Grant revenues also tracked below budgeted levels since actual grant revenues are received only once the project is completed. The Airport budgeted \$41 million in grant revenues and received only \$18.5 million. The revenue variance of \$22.5 million is anticipated to be received in 2006-2007. Passenger Facility Charges (PFCs) were slightly higher than anticipated by \$172,000. The Airport budgeted \$22.1 million in PFC revenues and received \$22.3 million. The negative variances were also partially offset by higher than anticipated interest earnings of \$ 4.9 million.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

The expenditure variance was due to lower than budgeted project expenditures (\$268.1 million). The following is a list of the major unexpended projects (\$000's):

North Concourse Building	\$192,794
North Concourse Roadway Mitigation	14,930
FMC Site Reuse Preparation	13,272
Taxiway Y Reconstruction	11,445
Noise Attenuation - Category 1B	10,120
Central Plant Expansion	5,313
Utility Infrastructure	4,277
Master Plan Misc. Precursor Projects	3,808
Noise Monitoring Units	1,589
Public Art	1,428
Electrical Distribution System	1,327
Elements of the Master Plan	1,168
Taxiway Z Alignment	581
Extend and Strengthen Runway 30L	559
Computerized Maintenance Management System	<u>530</u>
 Total	 \$ 263,141

The following is an explanation of major project variances:

- The North Concourse Building project variance reflects the timing of the establishment of the project's budget. Funding for this project was programmed entirely in the first year, therefore funding has continued to be rebudgeted until the project's completion.
- The North Concourse Roadway Mitigation project variance reflects the rephasing of this project that was reprogrammed as part of the Terminal Area Improvement appropriation. This project is now included as part of the Terminal Area Improvement Program design-build contract that is scheduled for award in October 2006.
- The FMC Site Reuse Preparation project variance reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The Taxiway Y Reconstruction project variance (\$11.4 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion. This project is currently in the construction phase and has an estimated completion date of June 2007.
- The Noise Attenuation – Category 1B project variance represents savings as a result of lower than estimated bids received on construction contracts awarded in May and June 2006. This savings will now be applied to the construction costs for Phases 9K and 9M.
- The Central Plant Expansion project variance (\$5.3 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion, which coincides with the North Concourse Building and has an estimated end date of May 2008.
- The Utility Infrastructure project variance (\$4.3 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion, which coincides with the North Concourse Building and has an estimated end date of May 2008.
- The Master Plan Miscellaneous Precursor project variance (\$3.8 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion.
- The Noise Monitoring Units project savings results from a slight delay in the procurement process of these units, originally anticipated to be bid and awarded by June 2006. It is now anticipated that the project will be awarded in September 2006.
- The Public Art project funds the public art associated with the North Concourse Building. The variance reflects savings that result from this project's developments in the feasibility stage only. This amount will be rebudgeted to continue that effort.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Airport Capital Funds (Cont'd.)

- The Electrical Distribution System project variance (\$1.3 million) reflects the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion, which coincides with the North Concourse Building and has an estimated end date of May 2008.
- The Elements of the Master Plan Studies project funds the studies for various projects such as land use, landscaping, and parking. At the onset of the year, a projection of Master Plan studies was prepared, but as the year progressed, there were various developments in the preparation phase that altered the original direction of the studies. As a result, the Elements of the Master Plan Studies project expended less than anticipated in 2005-2006 and these savings will be rebudgeted to provide funding for the completion and updates of the studies related to the Airport's Master Plan projects.
- The Taxiway Z Alignment project variance (\$581,000) reflects the the timing of the establishment of the project's budget. Funding for this project was entirely programmed in the first year, therefore funding will continue to be rebudgeted until the project's completion. This project is currently in the construction phase and has an estimated completion date of June 2007.
- The Extend and Strengthen Runway 30L project variance (\$559,000) reflects project savings resulting from lower than estimated project expenditures. This project is now complete and the remaining budget will fall to fund balance.
- The Computerized Maintenance Management System variance is the result of the delay of this project's bid and award. It was originally anticipated to occur prior to June 30, 2006, but is now scheduled for bid and award in 2006-2007.

The remaining \$5.0 million variance involves a number of projects with less than \$500,000 in unexpended funds. The majority of the unexpended funds, excluding those that are merely project savings resulting once the project was completed, have been or will be recommended for rebudget for expenditure in the current fiscal year.

The positive 2005-2006 ending fund variance of \$20.4 million was primarily the result of lower than anticipated expenditures, offset by lower than estimated revenue. Portions of the expenditure savings are being recommended for rebudget to provide sufficient funding for

<p>2005-2006 ANNUAL REPORT</p>

projects in the current fiscal year. The balance of the expenditure savings will remain unallocated as the Airport continues to review its capital project priorities.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund

In November 2000, San José voters approved a \$212 million Library bond to improve the branch library system over a ten-year period. These funds designated in the Library Bond program will support the reconstruction or replacement of 14 existing branches, and the construction of six additional branches in unserved neighborhoods.

***Branch Library
Bond Projects
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 29,723	\$ 63,207	\$ 33,484	112.7%
<i>Expenditure</i>	69,151	45,481	23,670	34.2%
<i>Fund Balance (est.)</i>	98,515 *	90,034	(8,481)	(8.6%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for this fund. The positive revenue variance of \$33.5 million is the result of higher than anticipated bond proceeds (\$34.0 million) and higher than anticipated interest earnings (\$2.4 million) on bond proceeds, partially offset by lower land sale revenue (\$3.0 million). It had been anticipated that the land for the original Bascom Branch site would be sold in 2005-2006. It is now anticipated that this property will be sold in 2006-2007. Bonds were issued to cover almost all of the remaining bond expenditures rather than spreading the bond issuances across a couple of years. This revised bond schedule was anticipated in the development of the 2006-2007 Adopted Capital Budget.

The positive expenditure variance of \$23.7 million reflects unexpended project funds. Following are descriptions of major project variances:

- The Joyce Ellington Branch project had an expenditure variance of \$7.0 million due to a delay in awarding the construction contract because of scope changes resulting from escalating construction costs.
- The Pearl Avenue Branch project had an expenditure variance of \$6.5 million due to a delay in awarding the construction contract because of scope changes resulting from escalating construction costs.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Branch Library Bond Projects Fund (Cont'd.)

- The Edenvale Branch project had an expenditure variance of \$2.3 million due to lower than estimated project management costs, and unused project contingency.
- The Cambrian Branch project had an expenditure variance of \$1.8 million due to lower than estimated project management costs, and unused project contingency.
- The Bascom Branch project had an expenditure variance of \$1.4 million due to a delay in the awarding of the consultant agreement.
- The Seventrees Branch project had an expenditure variance of \$1.3 million due to a delay in the awarding of the consultant agreement.
- The Almaden Branch project produced a variance of \$982,000 due to several punchlist items not being completed. This funding is being rebudgeted into 2006-2007 so all remaining work can be completed.
- The Land Acquisition allocation had an expenditure variance of \$879,000 due to land not yet being purchased for the Southeast Branch (the only remaining branch with a site not yet determined).

With the exception of the Tully Community Branch and Berryessa Branch projects, any unexpended project funds have been or will be rebudgeted to 2006-2007 to ensure adequate funding to complete the projects. The majority of these savings were anticipated and rebudgeted to 2006-2007, with the remaining balance recommended for rebudget and the over-expended amount to be reduced as part of this document.

The 2005-2006 ending fund balance is \$8.5 million lower than the estimate used in the development of the 2006-2007 Adopted Capital Budget primarily due to lower than anticipated revenues (\$7.2 million) associated with the sale of property (\$3.0 million) and bond proceeds (\$4.2 million), and higher than anticipated project expenditures (\$1.2 million), which will have no negative impact on any projects.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund

The Building and Structure Construction Tax is a tax on residential, commercial and industrial development. The use of these funds, along with grant revenue, is restricted to traffic capital improvements on major arterials and collectors, including bridges, culverts, lighting, and traffic control systems that increase traffic volume.

***Building & Structure
Construction Tax
Fund***

(\$000s)	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 14,257	\$ 15,670	\$ 1,413	9.9%
<i>Expenditure</i>	50,109	29,723	20,386	40.7%
<i>Fund Balance (est.)</i>	19,245 *	25,821	6,576	34.2%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Total revenues of \$15.7 million include receipts from the Building and Structure Construction Tax, grants from the federal government for various Intelligent Transportation Systems (ITS) and seismic bridge retrofit projects, funding from the State government for Street Maintenance, miscellaneous revenue, developer contributions, and interest earnings.

The positive revenue variance (\$1.4 million) was primarily due to stronger than anticipated receipts for the Building and Structure Construction Tax (\$1.0 million), interest earnings (\$596,000), and miscellaneous revenue (\$522,000), partially offset by lower than anticipated federal (\$751,000) and State (\$29,000) grant funding. At \$9.7 million, Building and Structure Construction Tax receipts in 2005-2006 were 12.1% (\$1.3 million) lower than 2004-2005 collections (\$11.0 million), but they outperformed deliberately conservative 2005-2006 estimate of \$8.7 million by \$1.0 million. Receipts also remained 45% below 2000-2001 record revenues of \$17.4 million.

Postponements in certain projects contributed to delays in reimbursements from other agencies. The largest of these were delays in the Intelligent Transportation Systems projects, which impacted reimbursements by federal grants. The reimbursement for the ITS: Regional Signal Coordination project was \$391,000 below the budgeted estimate due to project delays. The project schedule was slowed to allow City staff to combine efforts with another project and increase grant competitiveness. This project was also impacted by a delay in a Valley Transportation Authority (VTA) project that is providing the software upgrade for the signal

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

management system in this project. The majority of the delays were anticipated, and revenue for five projects was rebudgeted into 2006-2007 as part of the Adopted CIP (\$747,000).

Unexpended project funds resulted in a \$20.4 million positive variance in budgeted program expenditures. Almost all of these funds have been rebudgeted into 2006-2007 or will be recommended for rebudget with this document to ensure sufficient funding for projects in the current year. The variance between budgeted and actual expenditures was caused primarily by the following projects with significant expenditure variances (\$000's):

Branham Lane Improvements	\$	3,113
ITS: Stevens Creek – West		2,396
Senter Road: Tully to Singleton		2,125
Traffic Signals		1,320
Taylor Street: First to Coleman		1,294
Bailey/Route 101 Improvements		1,013
Oakland Road: Route 101 to Montague		854
Hostetter Road: Sierra Creek to Stone Creek		595
Traffic Signals – Rehabilitation		507
Route 101: Mabury Interchange Upgrade		500
Lucretia Avenue: Story to Phelan		417
ITS: Transportation Incident Management Center		417
ITS: Regional Signal Coordination		416
Route 880: Stevens Creek Interchange Upgrade		408
Senter Road: Singleton to Monterey		351
Willow Glen Way: Guadalupe River Bridge		351
Autumn Street Corridor Planning		<u>322</u>
Total	\$	16,399

Following are descriptions of the projects' variances:

- The Branham Lane Improvements project was delayed due to ongoing negotiations with Santa Clara County regarding property acquisition required for this project. These land acquisition issues were factored into the schedule included in the 2007-2011 CIP.
- The ITS: Stevens Creek – West project was delayed due to the delay in award of the construction contract, primarily resulting from the change in the State's Disadvantaged Business Enterprise program and escalated construction costs.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The Senter Road: Tully to Singleton project had expenditures savings due to a reduction in the scope of work necessary to complete roadway improvements.
- The Traffic Signals project funds several signal projects each year. A number of the signals originally programmed for award were not awarded during 2005-2006, and this money will be recommended for rebudget into 2006-2007 to support completion of the signals. The award delays were caused in part by delays due to coordination with Caltrans, VTA, and property owners. In addition, the construction timing was impacted due to coordination with downtown events.
- The Taylor Street: First to Coleman project provides for sidewalk, street trees, landscaped median island, traffic calming, and pedestrian/bicycle improvements. The project was delayed as a result of an increase in scope to the project to include additional landscaping and irrigation to allow for more trees within the median islands, park strip, and along the Route 87 embankment.
- The Bailey/Route 101 Improvements project was slowed due to the shifting of construction management responsibility from the Valley Transportation Authority (VTA) to City staff for the riparian mitigation portion of the project from the VTA.
- The Oakland Road: Route 101 to Montague project was originally scheduled for completion in May 2006, but due to delays in relocating utility poles and severe wet weather early in the year, the completion of construction is now scheduled in fall 2006.
- The Hostetter Road: Sierra Creek to Stone Creek project was delayed due to meetings with the community that did not occur as originally scheduled.
- The Traffic Signals – Rehabilitation program provides for proactive rehabilitation of traffic signal equipment to ensure the existing traffic signal system meets current safety standards. This program also provides funding for miscellaneous rehabilitative improvements including a traffic signal modification at 7th and Santa Clara Streets. The design of this project has been delayed due to staff resources.
- The Route 101: Mabury Interchange Upgrade project experienced delays associated with defining and negotiating the cooperative agreement with VTA.
- The Lucretia Avenue: Story to Phelan project has been postponed due to Pacific, Gas and Electric's (PG & E) delay of construction. The revised schedule anticipates construction completion by the end of December 2006.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Building and Structure Construction Tax Fund (Cont'd.)

- The ITS: Transportation Incident Management Center project was delayed due to issues with the Emergency Communication Dispatch Center (ECDC) renovation project that is under development.
- The ITS: Regional Signal Coordination project was delayed due to the reprioritization of transit signal priority projects within the County.
- The Route 880: Stevens Creek Interchange Upgrade project experienced delays associated with defining and negotiating the cooperative agreement with VTA.
- The Senter Road: Singleton to Monterey project generated savings as a result of scope revisions. As part of this report, it is recommended that these savings be transferred to the second phase of the Senter Road project, Senter Road: Tully to Singleton.
- The Willow Glen Way: Guadalupe River Bridge project was delayed due to Caltrans delay of authorization to proceed with advertisement of construction while the City resolved right-of-way and Caltrans issues.
- The Autumn Street Corridor Planning project was delayed because this project now needs a full Environmental Impact Report which takes longer to obtain.

The remaining variance (\$4.0 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

The 2005-2006 ending fund balance variance of \$6.6 million is the result of higher than estimated revenues (\$1.5 million) combined with lower than estimated expenditures (\$5.1 million). Most of these expenditure savings are recommended for rebudget as part of this report to provide sufficient funding for projects in the current fiscal year.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Construction Fund

The Civic Center Construction Fund accounts for the expenditure of bond proceeds for the new Civic Center project.

Civic Center
Construction Fund
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 6,419	\$ 4,003	\$ (2,416)	(37.6%)
<i>Expenditure</i>	24,952	21,495	3,457	13.9%
<i>Fund Balance (est.)</i>	6,230 *	6,784	554	8.9%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

In 2005-2006, revenues were below the budgeted estimate by \$2.4 million due to lower than budgeted commercial paper proceeds (\$3.4 million), partially offset by higher interest earnings (\$1.0 million). Based on a lower project cost estimate and the use of a portion of the interest earnings to cover remaining costs, no commercial paper was issued for this project in 2005-2006. Interest earnings of \$4.0 million in 2005-2006 exceeded expectations by \$1.0 million and reflect the transfer of interest earnings that had originally been budgeted in 2004-2005.

Expenditures ended the year \$3.5 million below the budgeted level. The majority of the variance was in the Capital Enhancements (\$2.2 million) allocation and the Transfer to the Civic Center Parking Fund (\$1.0 million) with smaller variances in the Construction (\$121,000), Design and Construction Management (\$106,000) and Public Art (\$32,000) categories. The lower expenditure level was anticipated at the end of the 2005-2006 and the majority of the funds were rebudgeted in the 2006-2007 Adopted Capital Budget. Rebudget adjustments are recommended in this report to adjust the 2006-2007 appropriations based on actual year-end expenditures.

In 2005-2006, the actual expenditures and encumbrances of \$21.5 million were spread as follows: Construction (\$16.3 million); Transfer to the 2002 Bond Debt Service Fund (\$2.2 million) to repay a portion of the debt for the Civic Center Project; Transfer to the General Fund (\$1.5 million) to repay the General Fund for costs incurred in prior years; Public Art (\$744,000); Design and Construction Management (\$592,000); and Consultants (\$167,000).

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Construction Fund (Cont'd.)

The 2005-2006 ending fund balance was \$554,000 above the estimate used in the development of the 2006-2007 Adopted Capital Budget due to higher than estimated interest earnings (\$511,000) and lower expenditures (\$43,000). The expenditure savings are recommended to be rebudgeted to 2006-2007 to complete the close-out of the project. It is also recommended that the additional interest earnings be used to complete the repayment to the General Fund for prior year expenditures (\$308,000) and to cover the remaining close-out costs (\$194,000). It should be noted that there are savings from the land acquisition allocation in the Civic Center Parking Fund that are sufficient to cover the additional close-out costs in this fund. The overall cost of the project remains at the \$348.1 million level presented to the City Council as part of the 2006-2007 Adopted Capital Budget.

<p align="center">2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Improvement Fund

The Civic Center Improvement Fund was established in 2003-2004 to account for the technology, furniture, equipment, and relocation costs associated with the new City Hall.

***Civic Center
Improvement Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 30,686	\$ 21,438	\$ (9,248)	(30.1%)
<i>Expenditure</i>	21,082	11,110	9,972	47.3%
<i>Fund Balance (est.)</i>	- *	724	724	N/A

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

In 2005-2006, revenues were below the budgeted estimate by \$9.2 million due to lower than budgeted commercial paper proceeds (\$9.3 million), slightly offset by higher than anticipated interest earnings (\$72,000). A lower amount of commercial paper was issued based on the actual expenditure needs in this fund.

Expenditures were \$10.0 million below the budgeted level based on the timing for the acquisition of technology, furniture, and equipment items. The lower expenditure level was anticipated at the end of 2005-2006 and the majority of the funds were rebudgeted in the 2006-2007 Adopted Budget. Rebudget adjustments are recommended in this report to adjust the 2006-2007 appropriation based on actual year-end expenditures.

The 2005-2006 ending fund balance was \$724,000 above the estimate used in the development of the 2006-2007 Adopted Capital Budget due to lower than estimated expenditures of \$1.0 million and higher interest earnings (\$72,000), partially offset by lower than expected commercial paper proceeds (\$357,000). The expenditure savings and the commercial paper proceeds are recommended to be rebudgeted to 2006-2007 to complete the purchase of the technology, furniture, and equipment for the new City Hall.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Civic Center Parking Fund

The Civic Center Parking Fund accounts for the expenditure of bond proceeds for the new Civic Center off-site parking garage. In 2001-2002, this Fund also accounted for the new Civic Center on-site parking garage.

***Civic Center
Parking Fund
(\$000s)***

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 21,331	\$ 23,095	\$ 1,764	8.3%
<i>Expenditure</i>	22,578	21,184	1,394	6.2%
<i>Fund Balance (est.)</i>	1,713 *	3,622	1,909	111.4%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

In 2005-2006, revenue was generated from commercial paper proceeds (\$22.5 million), proceeds from participation in the State of California Vehicle License Fee (VLF) Gap Loan Receivable Financing Program (\$590,000), interest earnings (\$49,000). The revenue variance of \$1.8 million is due to higher than budgeted commercial paper proceeds (\$2.2 million) and the receipt of additional VLF Gap Loan Receivable Financing Program that had not been anticipated with the 2005-2006 budget was developed (\$590,000), partially offset by a lower transfer from the Civic Center Construction Fund (\$1.0 million) that did not occur as scheduled because the funding was not needed.

Expenditure variances related to the New Civic Center Parking Garage totaled \$1.4 million (6.2%). The majority of these expenditure savings (\$1.3 million) was anticipated at the end of the 2005-2006 fiscal year and rebudgeted in the 2006-2007 Adopted Capital Budget. Additional expenditure savings (\$93,000) are recommended for rebudget as part of this report.

The 2005-2006 ending fund balance was \$1.9 million above the estimate used in the development of the 2006-2007 budget due to higher than anticipated commercial paper proceeds (\$981,000), VLF Program revenue (\$590,000), interest earnings (\$49,000), and lower expenditures (\$288,000). As part of this report, it is recommended that the VLF Program revenue be used to redeem commercial paper for Civic Center Parking Garage project and that a portion of the expenditure savings be rebudgeted (\$93,000). The remaining savings of \$194,000 that were generated from land acquisition are expected to offset additional costs in the Civic Center Construction Fund so that the total Civic Center Project cost remains at \$348.1 million.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds

The Construction Tax is a flat fee assessed on residential, commercial, and industrial development. The Conveyance Tax is imposed at a rate of \$3.30 per \$1,000 of the value of the conveyed property. Revenues collected in the Construction and Conveyance Tax Funds are dedicated to the Parks and Community Facilities Development, Communications, Fire, Library, and Service Yards capital programs.

Construction and Conveyance Tax Funds

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 99,955	\$ 78,105	\$ (21,850)	(21.9%)
<i>Expenditure</i>	118,550	85,791	32,759	27.6%
<i>Fund Balance (est.)</i>	97,477 *	83,440	(14,037)	(14.4%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Revenues in 2005-2006 included: Construction and Conveyance tax receipts; transfers between funds; State and federal grants; interest; and miscellaneous revenues.

The elements of the revenue variance were as follows:

	<u>(\$000s)</u>
Construction and Conveyance Tax Revenue	\$ 4,995
Transfers of Construction and Conveyance	
Revenue between funds	1,574
Interest Earnings and Miscellaneous Revenues	(18,826)
Grants	<u>(9,593)</u>
Total	\$ (21,850)

In 2000-2001, Construction and Conveyance Tax revenues reached a high of \$31.6 million. Due to the economic slowdown, which impacted real estate sales, there were significant declines in this revenue in 2001-2002 and 2002-2003 (down to \$24.8 million). However, in 2003-2004 and 2004-2005, there was a sharp increase in activity in the local real estate market, which resulted in new record-setting collection levels of \$38.2 million and \$46.7 million accordingly. When estimating the Construction and Conveyance Tax revenues for 2005-2006, it was difficult to anticipate whether the real estate market would continue to show such strong sales activity. Surprisingly, receipts in 2005-2006 yet again set a new record level high of \$49.0 million.

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

However, it should be noted that much of this funding was collected during the first half of the fiscal year. Starting in February 2006, revenues started to slow down and in some cases declined compared to the prior year activities, which may signify the real estate market is beginning to slow down.

Consistent with the increase in Construction and Conveyance Tax revenues, the single-family median home price as of June 2006 was \$740,000, 5% higher than the June 2005 figure of \$706,000. However, the number of real estate sales in San José in 2005-2006 fell from the prior year, with a decrease of 18%. The amount of time it takes to sell a home has also increased, as has the average days on market, which increased from 15 days in June 2005 to 34 days in June 2006. The decline in the number of sales and the increase in the days on market are also typical indicators of a real estate market which is beginning to cool.

The higher than anticipated tax collections also positively impacted the transfer category because of the methodology used to distribute the tax revenue to individual Construction and Conveyance Tax funds.

The negative interest earnings and miscellaneous revenues variance was mainly due to the lower than anticipated issuance of commercial paper. In the Service Yards Construction and Conveyance Tax Fund, it was anticipated that \$21.5 million would be collected from commercial paper to provide temporary financing for the Central Service Yard Phase II project. However, only \$3.6 million was needed for the project in 2005-2006 to fund actual expenditures. Grant revenue was also below anticipated levels because many of the grants are paid on a reimbursement basis and the work on the eligible projects has not yet been completed. In addition, a number of the projects were recently completed, but the reimbursement requests have not yet been finalized. Most of these grant revenues are expected to be received in 2006-2007.

The expenditure variance of \$32.8 million, or 27.6%, is primarily the result of unexpended capital project funds. The majority of these expenditure savings were anticipated and the funds were rebudgeted to 2006-2007 to complete these projects. Additional rebudgets are recommended in this report to provide sufficient funding to complete the projects.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

The following is a list of projects in which unexpended balances exceeded \$300,000:

		<u>(\$000s)</u>
Council District 1:	Youth Center-District 1	\$ 1,067
	Rainbow Park Master Plan	330
Council District 3:	Roosevelt Community Center	967
	Trail: Airport Parkway	675
Council District 8:	Mount Pleasant School District/Fernish Park	400
Council District 9:	Dog Park Development	309
Council District 10:	Youth Sports Fields	1,271
	Almaden Community Center Fixtures,	326
	Furnishings and Equipment	
Central Fund:	Parks Fixtures, Furnishings and Equipment	1,071
City-Wide:	Willow Glen Spur Trail Acquisition	1,000
	Vietnamese Cultural Heritage Garden	805
	Overfelt Garden Irrigation	775
	Capital Maintenance Projects	661
	Prusch Farm Park Service Yard	641
	Regional Park Automated Parking System	593
	Alum Rock Park Water Line Relocation	552
Communications:	Communication Equipment Replacement	1,638
Fire:	Fire Apparatus Replacement and Repair	723
	Records Management System	457
	Facilities Improvements	398
Library:	Libraries Fixtures, Furnishings and Equipment	1,899
	Automation Projects and System Maintenance	680
	Acquisition of Materials	392
Service Yards:	Central Service Yard Phase II	<u>2,611</u>
Total		\$ 20,241

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

Following are descriptions of significant project variances:

- The Youth Center-District 1 project was delayed due to longer time being needed to complete the community outreach process. This project schedule and scope have now been finalized and the project is expected to be completed in 2006-2007.
- The Rainbow Park Master Plan project was delayed until a location was finalized for the Calabazas Branch Library, since staff is considering locating the Library at Rainbow Park. The master planning process will begin in 2006-2007.
- The Roosevelt Community Center project generated a variance due to delays in the project due to unstable soil conditions being found at the site.
- The Trail: Airport Parkway project is being implemented by the Santa Clara Valley Water District (SCVWD). Expenditure savings occurred in 2005-2006 because of a delay with SCVWD beginning this project. The project should be beginning soon, and the City anticipates receiving their first billing invoice from SCVWD in February 2007.
- The Mount Pleasant School District/Fernish Park project is on hold as staff negotiates with Mount Pleasant School District regarding the scope of the project. Negotiations are currently at a standstill, therefore staff will likely recommend reallocating these funds during the 2007-2008 budget process.
- The Dog Park Development project was delayed due to the design process taking longer than originally anticipated.
- The Youth Sports Field project is temporarily on hold pending a site being found in Council District 10.
- The Almaden Community Center Fixtures, Furnishings and Equipment allocation was not fully expended in 2005-2006 since the Almaden Community Center project opening was delayed. All remaining purchases will be made in 2006-2007.
- The Parks and Library Furniture, Fixtures and Equipment allocations provide funding to outfit the General Obligation Bond-funded park facilities and libraries. All unexpended funds are carried over to the following year to purchase the necessary furniture, fixtures

<p>2005 - 2006 ANNUAL REPORT</p>

and equipment for the new and remodeled park facilities and libraries as these facilities come on-line.

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Willow Glen Spur Trail Acquisition is delayed due to negotiations with the Union Pacific Railroad (who owns the land the City is attempting to purchase) taking longer than anticipated.
- The Vietnamese Cultural Heritage Garden project provides funding for the City's agreed upon contribution for the Vietnamese Cultural Heritage Garden relocation to Kelley Park. The full contribution amount for this project has been budgeted, however, based on Council approved negotiations, the City will be providing the funding to the Vietnamese Historical Society in two installments in accordance with contractually agreed upon development milestones.
- The Overfelt Garden Irrigation project was on hold while additional funding was identified for the project. Additional funding is recommended to be added to this project budget as part of this document. Once all funding is appropriated project activities will resume.
- The Capital Maintenance Projects allocation in the Parks City-wide Construction and Conveyance Tax Fund was placed on hold pending the Parks, Recreation and Neighborhood Services Department and the General Services Department preparing a coordinated spending plan for major systems (e.g. renovation of irrigation systems, hard surfaces, etc.) across council districts for cost effectiveness. Staff has developed a plan and will be reviewing it with each Council District office in the fall.
- The Prusch Farm Park Service Yard project was placed on hold while additional funding was identified for the project. Now that this funding has been secured, the project will resume.
- The Regional Park Automated Parking System project was delayed due to the Request for Qualification (RFQ) process taking longer than was originally anticipated.
- The Alum Rock Park Water Line Relocation project had an expenditure variance due to the environmental clearance process being delayed and taking longer than was originally anticipated.

<p>2005 - 2006 ANNUAL REPORT</p>

- The Communication Equipment Replacement project had an expenditure variance in 2005-2006 because staff was not able to purchase all of the equipment by the end of the fiscal year. These purchases will be made in 2006-2007.

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction and Conveyance Tax Funds (Cont'd.)

- The Fire Apparatus Replacement and Repair project has an annual allocation and budgeted funds are expended each year based on the approved apparatus replacement schedule. All year-end balances are carried over to the following year to fund apparatus replacement.
- The Records Management System project had a year-end variance due to the project being delayed. When the project was placed out to bid, two bid proposals were received. However, the City will be rejecting both bids and will re-bid the project in November 2006, hoping to attract more attractive bid proposals at that time.
- The Fire Facilities Improvements project had unexpended funds at year-end because a number of projects that were to be funded by this annual allocation were not completed in 2005-2006. The unexpended funds will be rebudgeted to 2006-2007 to complete those projects.
- The Library program's Automation Projects and System Maintenance and Acquisition of Materials projects have annual allocations and budgeted funds are expended on an as-needed basis. Year-end balances are then carried over to the following year to fund automation projects and for materials acquisition.
- The Central Service Yard Phase II project had a expenditure variance in 2005-2006. This project had funding accelerated from 2006-2007 into 2005-2006, however the funding was not expended and was re-allocated back into 2006-2007 as part of the 2006-2007 budget process.

The 2005-2006 ending fund balance in the combined Construction and Conveyance Tax Funds was \$14.0 million lower than the budgeted estimate primarily due to the lower than anticipated commercial paper proceeds, partially offset by higher than anticipated Construction and Conveyance Tax revenue. For purposes of developing the 2006-2007 Adopted Capital Budget, it was assumed that Construction and Conveyance Tax revenues would total \$44.0 million in 2005-2006. The actual collection level was \$5.0 million higher than estimated. These additional funds are recommended in this report to be distributed to the various Construction and Conveyance Tax funds according to the regular formula. Also part of this report, the unused

<p>2005-2006 ANNUAL REPORT</p>

commercial paper proceeds will be rebudgeted to 2006-2007 to fund the Central Service Yard Phase II project.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund

The Construction Excise Tax, also referred to as the Commercial, Residential, and Mobile Home Park Building Tax, is a tax on construction of residential, commercial, and mobile home developments. This general purpose tax is based on building valuation, with revenues in the fund historically being used primarily for traffic improvements.

***Construction Excise
Tax Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 25,730	\$ 20,709	\$ (5,021)	(19.5%)
<i>Expenditure</i>	45,555	24,671	20,884	45.8%
<i>Fund Balance (est.)</i>	9,075 *	20,714	11,639	128.3%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Total revenues of \$20.7 million include receipts from the Construction Excise Tax, State and federal grants, developer contributions, interest, and other miscellaneous revenues.

The negative revenue variance (\$5.0 million) is due primarily to delays in federal grant reimbursement for federal Street Maintenance (\$4.7 million variance), as well as a delay in State grant reimbursement for Prop 42 Street Maintenance (\$1.1 million). In contrast, higher than anticipated receipts in the Construction Excise Tax (\$670,000) and an additional receipt in miscellaneous revenue for the San Pedro and 7th Street Traffic Calming project (\$300,000) were received in 2005-2006. At \$14.1 million, Construction Excise Tax receipts in 2005-2006 outperformed conservative 2005-2006 estimates of \$12.9 million (estimates were exceeded by \$1.2 million), but were 7.8% (\$1.2 million) below 2004-2005 collections (\$15.3 million). Receipts also remained 31.9% below 2000-2001 record revenues of \$20.7 million.

Unexpended project funds resulted in a \$20.9 million positive variance in budgeted program expenditures. The variance to budget was caused primarily by the following projects with significant expenditure variances (\$000's):

Federal Street Maintenance	\$	5,280
Street Maintenance		4,612
Prop 42 Street Pavement Maintenance		3,293
North San José Deficiency Plan Improvements		1,665
Traffic Calming		<u>1,223</u>
Total	\$	16,073

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

Following are descriptions of the project variances:

- The Federal Street Maintenance project funds street resurfacing on selected qualifying arterial streets in San José to meet State and federal requirements. In order to take advantage of more favorable bidding, this project combines several smaller resurfacing projects into one larger project. Design phase work in the amount of \$527,000 was completed on this project in 2005-2006, and the remainder of the funds will be rebudgeted into 2006-2007, combining with new 2006-2007 funds to support the construction phase of the project which will be completed in 2006-2007.
- The Street Maintenance project funds street maintenance for arterial and residential streets at various locations throughout the City. Work in the amount of \$2.6 million was completed on this project in 2005-2006, and the remainder of the funds will be rebudgeted into 2006-2007 to support the completion of the slurry seal project that was delayed to accommodate changes in the final list of streets to be sealed.
- The Prop 42 – Street Pavement Maintenance project utilizes State grant funding to perform street sealing and resurfacing of various City streets, thereby improving the overall condition of the City's street network. Funding for this project was first identified after formation of the 2005-2006 pavement maintenance annual project work plan, limiting staff's ability to identify and execute additional projects. Work in the amount of \$852,000 was completed in 2005-2006, and the remainder of the funds will be rebudgeted into 2006-2007 to support the completion of projects.
- The North San José Deficiency Plan Improvements project funds sidewalk improvements and congestion mitigation in the North San José area over several years. The majority of the funds were rebudgeted in the 2007-2011 CIP with the remaining savings recommended for rebudget as part of this document due to delays in the project pending resolution of land donation issues.
- The Traffic Calming appropriation is an annual program funding various projects in coordination with neighborhoods and Council Offices. The remaining balance has been rebudgeted into 2006-2007 to continue work on these projects.

The remaining variance (\$4.8 million) reflects unexpended funds in a number of projects with balances of less than \$300,000.

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Construction Excise Tax Fund (Cont'd.)

The 2005-2006 ending fund balance is \$11.6 million higher than the estimated fund balance of \$9.1 million used in the development of the 2006-2007 Adopted Capital Budget. This variance reflects a combination of lower than estimated expenditures (\$16.3 million) partially offset by lower than estimated revenues (\$4.7 million). Most of the expenditure savings (\$15.9 million) and revenues (\$6.3 million) are recommended for rebudget as part of this document to provide sufficient funding for projects in the current fiscal year.

<p align="center">2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Interim City Facilities Improvements Fund

The Interim City Facilities Improvements Fund was established in 2003-2004 to account for interim improvements to City facilities that would be necessary to continue operating these facilities.

Interim City Facilities Improvements Fund

	(\$000s)					
	Budget		Actual		Variance	
						Percent Variance
<i>Revenue</i>	\$	1,542	\$	79	\$ (1,463)	(94.9%)
<i>Expenditure</i>		1,526		63	1,463	95.9%
<i>Fund Balance (est.)</i>		-	*	-	-	N/A

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

When the budget was developed for this fund, it was assumed that \$1.6 million in commercial paper would be issued to fund improvements to existing City facilities that would remain in use after the relocation to the new City Hall. The use of these funds was originally outlined in an interim space plan that was brought forward to the City Council in January 2004. A revised plan was submitted to the City Council in May 2005 and included the following recommendations:

1. Close the existing City Hall and Annex.
2. Occupy old Martin Luther King, Jr. (MLK) Library through June 2007 or until the date for vacating for use by the San José Museum of Art is known.
3. Occupy the Health Building with Police operations and the City Physician.
4. Relocate additional operations to the Central Service Yard.

In 2005-2006 minimal activity occurred in this fund, as recommendations 1, 2 and 4 were implemented at minimal expense. Recommendation 3 required extensive research and analysis to determine if the Health Building had the capacity to accommodate Police Operations at a reasonable investment. Preliminary cost estimates determined the redesign and upgrades necessary to accommodate Police Operations would be placed on hold, until a land use and economic analysis of the former City Hall and E Parking lot is complete.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Interim City Facilities Improvements Fund (Cont'd.)

That study is expected to be complete in the spring of 2007. Implementation of Recommendation 3 is dependent on the outcome of the land use study, which will provide highest and best use scenarios of the entire former City Hall complex. This project is funded by commercial paper that is only issued to cover actual expenditures. The lack of activity resulted in large revenue and expenditure variances in 2005-2006. An adjustment is recommended in this report to rebudget the remaining funds for this project.

The fund ended the fiscal year with no ending fund balance. It is anticipated that commercial paper will be issued in 2006-2007 to support all expenditures made from this fund.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Lake Cunningham Fund

The Lake Cunningham Fund accounts for concessionaire and parking lot revenues that are dedicated to capital improvements and maintenance of the park.

Lake Cunningham Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 684	\$ 707	\$ 23	3.4%
<i>Expenditure</i>	2,192	870	1,322	60.3%
<i>Fund Balance (est.)</i>	1,410 *	1,538	128	9.1%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$23,000 reflects higher than anticipated parking revenue (\$40,000), and interest earnings (\$12,000), partially offset by lower than anticipated lease payments (\$29,000).

The positive variance in project expenditures (\$1,322,000) reflects unexpended project funds. A large portion of the variance between the budgeted estimate and actual expenditures was a result of the Lake Cunningham Perimeter Landscaping project (\$1,136,000) experiencing delays in securing the proper permits from the Santa Clara Valley Water District and the County of Santa Clara. The majority of savings for projects in this fund were anticipated and \$1,158,000 was rebudgeted to 2006-2007 in the Adopted Capital Budget. As part of this document, additional funding of \$70,000 is recommended to be rebudgeted to 2006-2007 to ensure sufficient funding to complete these projects.

The 2005-2006 ending fund balance variance of \$128,000 is the result of higher than estimated revenues (\$69,000) and lower than estimated expenditures (\$59,000). A majority of these expenditure savings is recommended for rebudget in this document to provide sufficient funding for projects in 2006-2007.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Collectors and Arterials Fund

The Major Collectors and Arterials Fund is for the collection of monies owed by developers for previously completed street improvements. Funds are also utilized for median island landscaping projects.

***Major Collectors
and Arterials Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 291	\$ 200	\$ (91)	(31.3%)
<i>Expenditure</i>	682	562	120	17.6%
<i>Fund Balance (est.)</i>	1,335 *	1,356	21	1.6%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Total revenues (\$200,000) were lower than budgeted by \$91,000. The variance was due to lower than anticipated developer contributions (\$98,000) partially offset by higher than anticipated interest earnings (\$7,000). Expenditures were below the modified budget by \$120,000 due to savings in the Traffic Signals project.

The 2005-2006 ending fund balance positive variance of \$21,000 reflects the combined impact of the lower than estimated revenues from developer contributions (\$98,000), and the lower than anticipated expenditures (\$120,000). The expenditure savings (\$120,000) in the Traffic Signals project are recommended to be rebudgeted as part of this report to provide sufficient funding for the project in the current fiscal year.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Major Facilities Fund

The Major Facilities Fund is part of the Municipal Water System capital program. This fund receives fees associated with the connection and operation of municipal water activities for major water facilities constructed in the North San José, Evergreen, Alviso, Edenvale, and Coyote areas. Developer's fees are paid for the future construction of large water mains, reservoirs, and other large projects.

Major Facilities Fund

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 242	\$ 150	\$ (92)	(38.0%)
<i>Expenditure</i>	2,434	1,498	936	38.5%
<i>Fund Balance (est.)</i>	2,371 *	3,061	690	29.1%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance (\$92,000) resulted from lower than budgeted Major Facilities Fees (\$116,000), as a result of lower than anticipated development activity, partially offset by higher interest earnings (\$24,000).

Expenditure savings (\$936,000) occurred primarily in the Edenvale Well #4 project (\$734,000) due to discontinuation of this project and the Gold Street Main Relocation project (\$165,000). The savings for the Gold Street Main Relocation project were anticipated at year-end and rebudgeted to 2006-2007 as part of the 2006-2007 Adopted Capital Budget.

The positive fund balance variance (\$690,000) resulted from the combination of project savings (\$781,000) offset by lower than estimated fee revenue (\$92,000).

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund Projects

On March 5, 2002, 72% the voters in San José approved Measure O, the “9-1-1, Fire, Police, Paramedic and Neighborhood Security Act” (Neighborhood Security Act Bond Measure). This bond measure authorized the City to issue General Obligation Bonds in an amount not to exceed \$159 million to fund projects in both the Police and Fire Departments.

Neighborhood Security Act Bond Fund Projects (\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 75,375	\$ 1,976	\$ (73,399)	(97.4%)
<i>Expenditure</i>	65,379	34,718	30,661	46.9%
<i>Fund Balance (est.)</i>	45,350 *	33,326	(12,024)	(26.5%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for this fund. The negative revenue variance of \$73.4 million is the result of lower than budgeted bond proceeds (\$75.4 million), partially offset by higher interest earnings (\$2.0 million) generated from the 2004-2005 bond proceeds. Revenue from G.O. Bonds totaling \$75.4 million was budgeted in 2005-2006; however, the bonds were not issued in 2005-2006 based on changes in the timing of program funding needs. When the 2006-2007 Adopted Budget was developed, it was assumed that the majority of these bonds would be issued in 2006-2007.

The expenditure savings of \$30.7 million reflect unexpended project funds. During the development of the 2006-2007 Adopted Budget, \$43.1 million of savings were anticipated at the end of 2005-2006 and were rebudgeted to 2006-2007. In some cases, however, the year-end expenditure savings were insufficient to cover the rebudget amounts. Downward adjustments are recommended for the following projects where the year-end expenditures were higher than estimated: Fire Station 34 (\$4.7 million), Fire Station 35 (\$4.6 million), Fire Station 25 Relocation (\$2.6 million), Fire Training Center (\$534,000), Public Art funding (\$265,000), Fire Station Upgrades (\$164,000), and Fire Station 12 Relocation (\$109,000). For the Fire Station 34, Fire Station 35, and Fire Station 25 projects, the contracts were awarded at the end of 2005-2006, and funding, therefore, was not available to rebudget to 2006-2007.

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Neighborhood Security Act Bond Fund Projects (Cont'd.)

The 2005-2006 ending fund balance is \$12.0 million lower than the estimate used in the development of the 2007-2011 Adopted CIP, primarily due to higher than estimated expenditures (\$12.1 million), partially offset by higher than estimated interest earnings (\$75,000). As previously discussed, various adjustments amounting to a net reduction of \$12.2 million in rebudgets are included in this document. It is anticipated that sufficient bond proceeds will be available in 2006-2007 to fund projected expenditure levels in 2006-2007.

<p align="center">2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund

The Park Trust Fund accounts for a fee received from developer's in-lieu of land dedicated for park and recreation development in residential areas. Monies in this fund, including interest earnings, must be expended solely for the acquisition or improvements of parkland within the residential areas where the in-lieu fees were paid.

Park Trust Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 220	\$ 19,408	\$ 19,188	8721.8%
<i>Expenditure</i>	9,704	3,768	5,936	61.2%
<i>Fund Balance (est.)</i>	70,011 *	77,345	7,334	10.5%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Under current City Council policy, in-lieu fee revenues in the Park Trust Fund are recognized and budgeted in the year following the receipt of the funds, in recognition of the fact that these revenues cannot be reasonably estimated from year-to-year. As a result, there are typically large positive revenue variances each year. In 2005-2006, this positive variance is primarily the result of in-lieu fees (\$14.8 million), reimbursements from the low-income housing voucher program (\$2.6 million), and interest earnings (\$1.9 million).

The expenditure variance of \$5.9 million is primarily due to project delays. Projects with significant variances include the following:

- The Backesto Park Renovation project had expenditure savings of \$868,000. Funding was used to provide partial funding for the perimeter lighting project. All remaining project savings were placed in a reserve pending future needs at the park as part of the 2006-2007 Adopted Capital Budget.
- The Wallenberg Dog Park project (\$707,000) was delayed due to unresolved design issues regarding where to place the parking lot for the facility.
- The Penitencia Creek Dog Park (District 4 Dog Park) project (\$487,000) was delayed due to coordination issues involving joint use agreements with the County of Santa Clara.
- The PDO/PIO Fee Refund (\$415,000) was not expended due to the late appropriation of these funds (item was approved on June 20, 2006).

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Park Trust Fund (Cont'd.)

- The Hester Park Renovation project had an expenditure variance of \$311,000 due to the playground equipment not being purchased. The savings were rebudgeted as part of the 2006-2007 budget process and the project will be completed this year.
- The District 3 Dog Park Development project (\$309,000) was delayed due to a site not yet being determined for the facility.
- The Floyd and Locust Park Expansion project had an expenditure variance of \$215,000 at the end of 2005-2006. Staff is currently investigating the feasibility and need to expand the park and will make a recommendation to either proceed or reallocate the funding during the 2007-2008 budget process.
- The Flickinger Park Improvements project, a turnkey park, had a variance of \$203,000 since the invoice from the builder has not yet been remitted for payment. Once the invoice is received, payment will be made for the City's portion of the costs to build this park.
- The Columbus Park Restroom and Ballfields project (\$202,000) was delayed due to conflicts with the softball leagues using the fields during the summer season. The project will resume again in the fall, when softball season is complete.

The 2005-2006 expenditure savings have been or will be rebudgeted to ensure sufficient funding is available to complete the Park Trust Fund projects.

The 2005-2006 ending fund balance variance of \$7.3 million is primarily the result of higher than anticipated revenue (\$6.2 million) and lower than anticipated project expenditures (\$1.1 million). Revenues will be programmed into the 2007-2008 Proposed Capital Budget.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund

On November 7, 2000, San José voters approved a bond measure totaling \$228 million to finance the construction of improvements to regional and neighborhood parks and recreation facilities over a ten-year period. This fund was established to account for the expenditure of those bond proceeds.

Parks and Recreation Bond Projects Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ -	\$ 47,637	\$ 47,637	N/A
<i>Expenditure</i>	54,541	26,951	27,590	50.6%
<i>Fund Balance (est.)</i>	83,310 *	88,750	5,440	6.5%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

General Obligation Bond proceeds (G.O. Bonds) and interest earnings provide the funding for this fund. During the development of the 2005-2006 budget, no revenues were programmed in this fund, however a total of \$47.6 million was received from bond proceeds (\$45.4 million) and interest earnings (\$2.2 million). G.O. Bonds were issued at the end of the fiscal year to cover future expenditures. This bond issuance was included in the development of the 2006-2007 Adopted Budget.

The positive expenditure variance of \$27.6 million reflects unexpended project funds. Following are descriptions of major project variances:

- The Roosevelt Community Center project generated a large portion of this variance (\$12.4 million) as a result of delays in the project due to unstable soil conditions being found at the site. In order to minimize the impact to the project schedule, the project was split into two bid packages. The first package (which includes building demolition and site work) was bid in 2005-2006 and the second package (which includes construction of the parking lot and the community center) will be bid in 2006-2007.
- The Public Art-Parks and Recreation Bond Projects produced a variance of \$2.3 million due to the delays in purchasing public art for various facilities.
- The Almaden Community Center project produced a variance of \$2.0 million due to several punchlist items not being completed. This funding will be carried over into 2006-2007 so all remaining work can be completed.

<p style="text-align: center;">2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Parks and Recreation Bond Projects Fund (Cont'd.)

- The Softball Complex project produced a variance of \$1.9 million in 2005-2006. This project is currently on hold while City staff works with San José State University to identify the potential of a joint project at San José State University. City staff is also investigating other potential options for placement of the sports complexes to ensure that the best possible sports parks are delivered to the citizens of San José.
- The Coyote Creek Trail (Phelan Avenue to Los Lagos Golf Course) project produced a variance of \$1.7 million. The construction document package was originally planned to be completed in-house. However, upon review of geotechnical reports and survey data, it was determined that an engineering consultant firm would be better suited to prepare the construction document package. In order to award a consultant contract, staff prepared a Request for Qualifications and obtained the Council's approval for a master agreement in June 2006. With the master agreement in place, design work is now underway.
- The Almaden Lake Park project produced a variance of \$1.2 million due to scope modifications. The project will now be going out to bid in 2007 and will be completed by fall 2007.
- The Guadalupe River Trail Reach VI (Woz Way to Willow Street) project produced a variance of \$1.2 million due to longer than expected negotiations with Caltrans (who is the underlying property owner along a portion of the project), which in turn delayed project construction.
- The Los Gatos Trail Reach IV project produced a variance of \$986,000 due to a parcel of land not being purchased in 2005-2006 as was originally anticipated.
- The Soccer Complex project produced a variance of \$963,000 in 2005-2006. This project is currently on hold while City staff works with San José State University to identify the potential of a joint project at San José State University. City staff is also investigating other potential options for placement of the sports complexes to ensure that the best possible sports parks are delivered to the citizens of San José.

The 2005-2006 expenditure savings have been or will be rebudgeted to ensure sufficient funding is available to complete the Park Bond projects.

The 2005-2006 ending fund balance is \$5.4 million higher than the estimate used in the development of the 2006-2007 Adopted Capital Budget primarily due to higher than anticipated interest earnings (\$237,000), and lower than anticipated project expenditures (\$5.2 million). As mentioned above, this document includes recommendations to rebudget a majority of the expenditure savings to provide sufficient funding for projects in 2006-2007.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Residential Construction Tax Fund

The Residential Construction Tax Fund accounts for taxes imposed upon the construction of single family dwelling units or mobile home lots in the City. The tax is collected and placed in the Residential Construction Tax Contribution Fund and is used to reimburse developers who constructed that portion of an arterial street which is wider than that which is normally required in connection with residential development.

***Residential
Construction Tax
Fund***
(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 212	\$ 281	\$ 69	32.5%
<i>Expenditure</i>	791	153	638	80.7%
<i>Fund Balance (est.)</i>	1,235 *	1,207	(28)	(2.3%)

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$69,000 is the result of higher than anticipated Residential Construction Tax receipts.

The positive expenditure variance primarily reflects savings in the Reimbursements to Developers for Landscaping (\$437,000), and the Reimbursement to Developers for Center Strip Paving (\$190,000) appropriations. These savings were anticipated and rebudgeted to 2006-2007 in the Adopted Capital Budget.

The 2005-2006 negative fund balance variance of \$28,000 is the result of higher than estimated expenditures (\$59,000) partially offset by higher than estimated revenues (\$31,000). A downward adjustment to the rebudgets approved as part of the 2006-2007 Adopted Budget is recommended in this report based on actual expenditures.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund

This fund accounts for the construction of improvements and the purchase of equipment for the Water Pollution Control Plant.

***San José/Santa Clara
Treatment Plant
Capital Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 14,946	\$ 28,220	\$ 13,274	88.8%
<i>Expenditure</i>	138,612	117,248	21,364	15.4%
<i>Fund Balance (est.)</i>	43,790 *	54,080	10,290	23.5%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance (\$13.3 million) primarily reflects receipt of funds budgeted and not received in the prior CIP for Silver Creek pipeline contributions (\$5.7 million), miscellaneous revenue (\$3.7 million) primarily from a PG&E energy rebate (\$1.5 million), additional transfer from the Sewer Service and Use Charge Fund for City of San Jose's share of CIP costs (\$2.0 million) and additional interest earnings (\$1.6 million).

Unexpended project funds resulted in a \$21.4 million positive variance in budgeted program expenditures. A portion of these savings (\$15.5 million) were anticipated and rebudgeted in the 2006-2007 Adopted Capital Budget. In addition, savings in the Land Management & Improvements and WPCP Reliability Improvements projects (\$133,000 and \$2,517,000 respectively) are recommended for rebudget in this document. However, expenditure savings in the Plant Infrastructure Improvements and Revised South Bay Action Plan (SBAP) - South Bay Water Recycling (SBWR) Extension projects were not sufficient to cover the original rebudget amounts. As a result, budget reductions (\$169,000 and \$503,000 respectively) are recommended in this document. The following is a list of projects that had an unexpended balance exceeding \$300,000:

	<u>(\$000's)</u>
Plant Infrastructure Improvements	\$ 5,832
WPCP Reliability Improvements	3,017
Revised South Bay Action Plan – SBWR	8,497
Equipment Replacement	<u>1,335</u>
Total	\$ 18,681

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

San José/Santa Clara Treatment Plant Capital Fund (Cont'd.)

The following is an explanation of project variances:

- Plant Infrastructure Improvements – This recurring, annual allocation funds improvements, rehabilitation, and replacement of existing Plant infrastructure. The savings of \$5.8 million will be reprogrammed in the next budget process for future projects.
- WPCP Reliability Improvements – This project is currently under construction with completion planned in mid-2009. Of the \$3.0 million savings, \$500,000 was rebudgeted as part of the 2006-2007 Adopted Capital Budget. The remaining \$2.5 million savings will be rebudgeted for Public Works and Environmental Services Departments staff costs for inspection and engineering services on the project, as requested in this document.
- Revised South Bay Action Plan – SBWR – In the 2006-2007 Adopted Budget, \$9.0 million was rebudgeted for this project. Because actual year-end savings total \$8.5 million, a downward adjustment of \$503,000 is recommended in this document.
- Equipment Replacement – This recurring, annual allocation funds the replacement and rehabilitation of WPCP equipment as needed. Savings of \$574,000 will be reprogrammed in the next budget process for future projects.

The remaining \$2.7 million variance involves a number of projects with savings of less than \$300,000.

The San José/Santa Clara Treatment Plant Capital Fund ended the year above the estimated fund balance (\$10.3 million variance) primarily due to higher than estimated levels of revenues and lower than estimated expenditures. A majority of these savings were already anticipated and were rebudgeted as part of the 2006-2007 Adopted Capital Budget.

As discussed above, \$2.6 million of this additional fund balance is recommended to be rebudgeted to 2006-2007 for WPCP Reliability Improvement (\$2.5 million) and Land Management and Improvement (\$133,000).

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund

The Sanitary Sewer fees are connection fees charged to new development to access the City's sanitary sewer system. The use of these funds are restricted to the construction and reconstruction of the system.

Sanitary Sewer Connection Fee Fund

<i>(\$000s)</i>	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,202	\$ 4,291	\$ 2,089	94.9%
<i>Expenditure</i>	18,821	5,128	\$ 13,693	72.8%
<i>Fund Balance (est.)</i>	13,949 *	19,357	\$ 5,408	38.8%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$2.1 million reflected an unbudgeted reimbursement from CalTran for Highway 87 projects (\$1.3 million) that were completed in prior years, higher than anticipated Connection Fees (\$520,000) and higher than anticipated interest earning (\$276,000) partially offset by lower than estimated Joint Participation revenues (\$87,000). Connection Fees were higher than estimated due to schedule changes in several projects that increased the amount of revenues received.

The \$13.7 million positive expenditure variance was primarily attributed to lower than estimated project expenditures. Of this amount, \$10.2 million was rebudgeted and \$318,000 was reprogrammed in the 2006-2007 Adopted Capital Budget. Additional rebudgets of \$3.4 million are recommended in this report.

The following is a list of major unexpended projects:

	<u>(000)'s</u>
Edenvale Sanitary Sewer Supplement Phase V	\$ 8,302
Flow Monitoring Program-Master Planning	2,021
Miscellaneous Rehabilitation Projects	1,138
Inflow and Infiltration Reduction	1,018
Miscellaneous Projects	<u>853</u>
Total	\$ 13,332

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase V – Design of this project is currently underway and continuing into 2006-2007. A rebudget of \$8.27 million was included in the 2006-2007 Adopted Capital Budget. The rebudget of an additional \$28,000 is recommended in this document for ongoing design work.
- Flow Monitoring Program-Master Planning – Savings in this category, designated for master planning and system analysis of the collection system, resulted because a portion of these funds was not needed in 2005-2006. Funding of \$900,000 was rebudgeted in the 2006-2007 Adopted Capital Budget to fund continuing master planning activities. The rebudget of an additional \$1,121,000 is recommended in this document to provide sufficient funding for ongoing sewer flow monitoring and citywide sanitary sewer master planning needed to identify capacity improvement needs in 2006-2007.
- Miscellaneous Rehabilitation Projects – Savings in this category, designated for scheduled pipe repair or rehabilitation, resulted because the majority of these funds were not needed in 2005-2006. A rebudget of unexpended funding of \$1,138,000 is recommended in this document to fund various anticipated sanitary sewer rehabilitation projects requiring maintenance and repair.
- Inflow and Infiltration Reduction – Cost savings in this category, designated for responses to infiltration and inflow into the sewer system, resulted because a portion of these funds was not needed in 2005-2006. A rebudget of \$1 million was included in the 2006-2007 Adopted Capital Budget to fund anticipated infiltration and inflow reduction projects. The rebudget of the remaining savings (\$18,000) is recommended in this document for ongoing condition assessment, preliminary engineering, and project design for the Capital Improvement Program.
- Miscellaneous Projects – Savings in this category, designated for emergency pipe repair or rehabilitation, resulted because a portion of these funds was not needed in 2005-2006. The rebudget of the unexpended funding of \$853,000 is recommended in this document to fund various anticipated sanitary sewer projects.

The remaining \$323,000 variance involves a number of projects with savings of less than \$250,000.

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sanitary Sewer Connection Fee Fund (Cont'd.)

In addition to the rebudgets mentioned above, project savings totaling \$270,000 is recommended for rebudget to 2006-2007 for the following projects: Monterey-Riverside Supplement (\$165,000), Preliminary Engineering (\$75,000), Public Works Engineering Services (\$21,000), and Payments to West Valley Sanitation District (\$10,000).

The Sanitary Sewer Connection Fee Fund ended the year above the estimated fund balance (\$5.4 million variance) due to higher than estimated revenue collections and expenditure savings. As previously described, the majority of these savings (\$3.4 million) are recommended for rebudget to 2006-2007 in this document.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund

The Sewer Service and Use Charge Capital Improvement Fund receives funding from the Sewer Service and Use Charge Operating Fund. These funds are used for the reconstruction of the Sanitary Sewer System.

***Sewer Service and
Use Charge Capital
Improvement Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 15,269	\$ 16,998	\$ 1,729	11.3%
<i>Expenditure</i>	49,289	25,248	\$ 24,041	48.8%
<i>Fund Balance (est.)</i>	22,914 *	30,222	\$ 7,308	31.9%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$1.7 million is the result of an unbudgeted reimbursement from CalTran for Highway 87 projects (\$1.38 million) that were completed in prior years and higher than budgeted interest earnings (\$345,000).

The \$24.0 million positive variance in expenditures is primarily attributed to lower than estimated project expenditures. Of this amount, \$18.5 million was rebudgeted in the 2006-2007 Adopted Capital Budget. The majority of the remaining expenditure savings are recommended for rebudget as part of this Annual Report. The following is a list of projects that had an unexpended balance exceeding \$300,000:

	<u>\$(000s)</u>
Edenvale Sanitary Sewer Supplement	\$ 9,036
Phase V	
84" RCP Interceptor	3,029
Miscellaneous Rehabilitation Projects	2,902
Infiltration Reduction	2,305
Forest-Rosa Rehabilitation Project	1,036
60" Brick Interceptor	998
Fourth Interceptor	942
Hobson-Walnut Area	899
San Tomas Aquino Creek Trunk	893
Willow-Union Trunk Sewer	<u>727</u>
Total	\$ 22,767

<p>2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

The following is an explanation of project variances:

- Edenvale Sanitary Sewer Supplement, Phase V – Design of this project is currently underway and continuing into 2006-2007. A rebudget of \$9 million was included in the 2006-2007 Adopted Capital Budget. The rebudget of an additional \$36,000 is recommended in this document for 2006-2007 to fund ongoing design work.
- 84" RCP Interceptor – Phase VIB was awarded in June 2005. A rebudget of \$1.5 million was included in the 2006-2007 Adopted Capital Budget. The rebudget of remaining project savings (\$750,000) to 2006-2007 is recommended for remaining construction and contingency costs.
- Miscellaneous Rehabilitation Projects – Savings in this category, designated for scheduled pipe repair or rehabilitation, resulted because a portion of the funds was not needed in 2005-2006. A rebudget of \$2 million was included in the 2006-2007 Adopted Capital Budget. The rebudget of an additional \$871,000 to 2006-2007 is recommended in this document to fund various anticipated sanitary sewer rehabilitation projects.
- Inflow and Infiltration Reduction – Cost savings in this category, designated for responses to infiltration and inflow reduction into the sewer system, resulted because a portion of these funds was not needed in 2005-2006. A total of \$2 million was rebudgeted in the 2006-2007 Adopted Capital Budget to fund various anticipated inflow and infiltration reduction projects. The rebudget of the remaining savings (\$305,000) is recommended in this document to fund ongoing condition assessment, preliminary engineering, and project design for the Capital Improvement Program.
- 60" Brick Interceptor – Phase IB of this project was at beneficial use starting June 2006 and is scheduled for project acceptance in February 2007. A portion of project savings of \$100,000 is recommended for rebudget for 2006-2007 in this document to fund a pending contract change order and for project close-out costs.
- Fourth Interceptor, Phase VI – This project is currently under preliminary investigation. A rebudget of \$927,000 was included in the 2006-2007 Adopted Capital Budget to fund continued scoping work. The rebudget of the remaining savings (\$15,000) is recommended in this document to fund ongoing project scoping.

<p>2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Sewer Service and Use Charge Capital Improvement Fund (Cont'd.)

- Hobson-Walnut Area – This project was awarded in August 2006. A rebudget of \$927,000 was included in the 2006-2007 Adopted Capital Budget to fund ongoing construction. However, this project did not meet sufficient year-end savings to cover the original rebudget amount assumed in the 2006-2007 Adopted Capital Budget. As a result, a small budget reduction to this appropriation (\$28,000) is recommended in this document.
- San Tomas Aquino Creek Trunk – This project was awarded in June 2005. A portion of the remaining savings (\$50,000) was included in the 2006-2007 Adopted Capital Budget to fund project close-out costs.
- Willow-Union Trunk Sewer – This project was awarded in June 2006 and was scheduled for construction beginning August 2006. A rebudget of \$613,000 was included in the 2006-2007 Adopted Capital Budget to fund construction. In addition, the rebudget of the remaining savings (\$16,000) is recommended in this document for continuing construction and contingency costs.

The remaining \$1.27 million variance involves a number of projects with less than \$300,000 in unexpended funds, and is largely attributed to delays in project awards.

Additional rebudgets totaling \$603,000 for 2006-2007 are included in this document for the following projects: Program Management (\$273,000), Miscellaneous Projects (\$200,000), Rosemary Area (\$83,000), Flow Monitoring Program-Master Planning (\$39,000) and Forest-Rosa Sewer (\$8,000).

The 2006-2007 ending fund balance variance (\$7.3 million) reflects the combination of higher than expected revenues and lower than estimated expenditures. As previously described, a portion of the expenditure savings (\$2.7 million) are being rebudgeted to complete projects in 2006-2007.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Drainage Fee Fund

The Storm Drainage Fees are charged to access the City's Storm Drainage System. The use of these funds is restricted to the construction and repair of the storm drainage system.

***Storm Drainage
Fee Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 490	\$ 575	\$ 85	17.3%
<i>Expenditure</i>	1,346	1,202	144	10.7%
<i>Fund Balance (est.)</i>	1,005 *	1,087	82	8.2%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

Revenues ended the year above budgeted levels. The positive revenue variance of \$85,000 reflects higher than budgeted Storm Drainage Fees (\$60,000) and interest earnings (\$25,000).

Expenditure savings (\$144,000) were spread across almost all of the projects in this program. A portion of these savings (\$90,000) was rebudgeted in the 2006-2007 Adopted Capital Budget for Miscellaneous Projects (\$15,000) and the Chateau Drive Storm Drain Improvement project (\$75,000). However, the Miscellaneous Projects (\$12,000) and Chateau Drive Storm Drain Improvement project (\$31,000) allocation did not achieve sufficient year-end savings to cover the original rebudget amount. As a result, budget reductions are recommended to these appropriations in this document (\$43,000).

The 2005-2006 fund balance is \$82,000 higher than the estimate used in the development of the 2006-2007 Adopted Capital Budget due to higher than anticipated revenues (\$85,000), partially offset by higher expenditures (\$3,000). As discussed above, this document includes recommendation for downward rebudget adjustments based on actual 2005-2006 expenditures.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Storm Sewer Capital Fund

The Storm Sewer Capital Fund receives revenue from the Storm Sewer Operating Fund to account for capital expenditures.

***Storm Sewer
Capital Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 2,125	\$ 2,123	\$ (2)	(0.1%)
<i>Expenditure</i>	6,894	5,184	1,710	24.8%
<i>Fund Balance (est.)</i>	1,091 *	1,832	741	67.9%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance (\$2,000) is solely due to lower than budgeted interest earnings.

Expenditure savings (\$1.7 million) were spread across almost all of the projects in this program. A portion of these savings (\$554,000) was anticipated at the end of 2005-2006 and rebudgeted to the 2006-2007 Adopted Capital Budget for the following projects: Minor Neighborhood Storm Drainage Improvements (\$250,000), Alma Storm Drain Improvements (\$220,000), Albany-Kiely Storm Drainage Improvement (\$80,000), and CIP Database Enhancement (\$4,000) projects. However, the Albany-Kiely Storm Drainage Improvement and Alma Storm Drain Improvements allocations did not achieve sufficient year-end savings to cover the original rebudget amount. As a result, downward adjustments are recommended to these appropriations in this document.

The following projects ended the year with additional expenditure savings and are recommended for rebudget in this document for 2006-2007: Storm Pump Station Rehabilitation and Replacement (\$133,000) and Master Planning (\$89,000).

The 2005-2006 ending fund balance ended the year \$741,000 higher than the estimated level. The variance is attributed mainly to higher than estimated expenditure savings. As described above, \$222,000 of the expenditure savings is recommended for rebudget as part of this report.

<p align="center">2005-2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Underground Utility Fund

The Underground Utility Program implements City General Plan Goals and Policies, which state that the City should encourage the undergrounding of existing overhead utilities. The fund is used to establish Rule 20B Underground Utility Districts and to administer the Rule 20A Program.

***Underground
Utility Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 1,450	\$ 1,802	\$ 352	24.3%
<i>Expenditure</i>	2,083	346	1,737	83.4%
<i>Fund Balance (est.)</i>	3,843 *	4,397	554	14.4%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The positive revenue variance of \$352,000 is the result of higher than anticipated developer in-lieu fees.

The positive expenditure variance of \$1.74 million primarily reflects savings in the Underground Utility Program appropriation due to changes in project delivery schedules. These savings were anticipated and were rebudgeted to 2006-2007 in the Adopted Capital Budget. Projects are budgeted at the program level each year to underground utilities and electrical services to City owned facilities, i.e. streetlights and traffic signals, as In-Lieu Fees are collected per street frontage and programmed in a 5-year work plan.

The 2005-2006 ending fund balance ended the year \$554,000 higher than the estimated level and reflects the combination of higher than anticipated developer in-lieu fees and lower than budgeted expenditures.

<p align="center">2005 - 2006 ANNUAL REPORT</p>

CAPITAL IMPROVEMENT PROGRAM FUNDS (CONT'D.)

Water Utility Capital Fund

The Water Utility Capital Fund supports the Municipal Water System capital program. Monies in this fund are expended on the acquisition, construction, and installation of water system capital improvements. This system provides water service to the North San José, Evergreen, Alviso, Edenvale, and Coyote areas and are primarily funded through user charges.

***Water Utility Capital
Fund***

(\$000s)

	Budget	Actual	Variance	Percent Variance
<i>Revenue</i>	\$ 3,778	\$ 3,252	\$ (526)	(13.9%)
<i>Expenditure</i>	5,011	3,836	1,175	23.4%
<i>Fund Balance (est.)</i>	2,759 *	2,943	184	6.7%

* Refers to the 2005-2006 Ending Fund Balance estimate used to develop the 2006-2007 Adopted Budget.

The negative revenue variance (\$526,000) resulted from lower than budgeted Advanced System Design Fees (\$278,000), Service Connection Fees (\$195,000), and Meter Installation Fees (\$125,000), partially offset by higher than budgeted interest earnings (\$72,000). Service Connection Fee, Advanced System Design Fee, and Meter Installation Fee revenues primarily recover the actual cost to install new services.

Expenditure savings (\$1.2 million) were spread across almost all of the projects in this program. A portion of these savings (\$289,000) was anticipated at the end of 2005-2006 and rebudgeted to 2006-2007 for the following projects: Water Valve Rehabilitation (\$75,000), North Coyote Valley Water System (\$170,000), and Service Installations (\$44,000). However, the Water Valve Rehabilitation project did not achieve sufficient year-end savings to cover the original rebudget amount. As a result, a downward adjustment of \$55,000 is recommended for this project in this document.

Savings also resulted in Meter Installations (\$150,000) and Advance System Design (\$80,000) allocations. Expenditures in these categories, usually reimbursed by developers, were not needed in 2005-2006. Other savings included the System Maintenance/Repairs (\$138,000), Edenvale Well #13 Rehabilitation (\$44,000), and North San Jose Well Site Improvements (\$176,000) allocations.

The positive variance in fund balance (\$184,000) was due to project savings, partially offset by lower than estimated revenues as described above.